As Thrifts' Earnings Soar, Consumer Confidence Wanes

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son in mind, new thrifts starting with a clean slate can match up assets and liabilities to minimize interest rate risk.

And another problem new thrifts are unlikely to face is runaway growth that has caused several institutions to fail this year. The Bank Board requires new thrifts to keep their net worth at higher levels than older institutions, so if a new thrift wants to speed up its asset growth, it will also have to speed up its capital growth to keep pace.

Any thrift that applied for a charter before Nov. 3, 1983, can open with initial capital of $2 million, but it must keep its net worth at a level equal to 7% of its assets for its first three years. Thrifts that applied after that date must capitalize at $3 million or more. The net worth requirement for those institutions is 7% the first year of operation, 6% the second, and 5% the third.

"It's the largest single factor in terms of limiting growth," said Pat Berbakos, assistant director of the Bank Board's office of district banks.

The new thrifts are also required to have an income maintenance agreement, in which the investors of the thrift or its holding company, if there is one, agree to supply capital to the thrift if it falls below regulatory levels, Mr. Berbakos said.

Applicants for new thrifts must also submit a detailed business plan as part of their application. "Any deviation from the business plan needs [regulatory] approval," Mr. Berbakos said.

"As a former regulator, I can understand the Bank Board's concern, but I think that's created a hardship," said Anita Miller, chairman and chief executive officer of AmeriFederal Savings Bank in Lawrenceville, N.J., and a former Bank Board chairman.

AmeriFederal, which opened Oct. 16, 1984, is nearing $30 million in assets, with capital equal to 11.2% of assets, Mrs. Miller said.

Several thrift failures this year, most notably in California, can be attributed to excessive growth. They include:

• Centennial Savings and Loan Association, Santa Rosa, Calif. The thrift, which opened in 1976, saw its assets rise from $49 million to $226 million during 1983. It had $405 million in assets when it was seized by the Bank Board in August.

• Butterfield Savings & Loan Association, Santa Ana, Calif. The four-year-old institution had $803 million in assets when it was taken over by regulators.

• Farmers Savings Bank, Davis, Calif. The seven-year-old savings bank had deposits grow from $186 million at yearend 1983 to $582 million at yearend 1984.

• Sunrise Savings and Loan Association, Boynton Beach, Fla. It opened in 1980 and had assets of $1.5 billion when the Bank Board stepped in.

Even though those four thrifts were more than three years old, the new Bank Board regulations won't let new thrifts off the hook at the end of their first three years. The new institutions will have to apply to their Federal Home Loan District Banks if they want to lower their capital ratios after three years, Mr. Berbakos said.

One way to maintain a high capitalization ratio is to open the institution with more capital than required. The Gold Coast Savings and Loan Association in Pembroke Pines, Fla., opened last year with $8 million in capital.

"With $8 million in capital, we do not find [the capital requirements] limiting," said Gold Coast president John R. Morris.

Gold Coast, which had assets of $54 million as of Sept. 30, has a business plan which aims for deposit growth of $50 million a year. With the $8 million in capital, "we have two years before we have to sweat," Mr. Morris said.

He said he thought $50 million was "a comfortable growth range for an S&L. At $100 million, you're bumping the limit."

Some New Thrifts Doing Well

Whether they need the growth limits or not, several new thrifts that have been open for about a year seem to be doing pretty well. All new thrifts lose money at the start, but Mr. Morris said Gold Coast has already recovered its initial losses.

New Thrift Openings Through June 30, 1985

California	12
Florida	11
Texas	10
Arizona	3
Virginia	3
Georgia	2
Maryland	2
Alabama	1
Connecticut	1
Louisiana	1
New Mexico	1
Total	47

"Earnings potential is very good, particularly for new institutions," he said. "We've done real well."

Although 23 new thrifts have opened in Florida in the last year and a half, there's always room for more. "It's very cash rich down here because of the retirees," Mr. Morris said. "People think their savings belong in the savings institutions."

First Commercial Savings and Loan Association in Sterling, Okla., began turning a monthly profit after three months, and is "almost in the black totally," according to its president, Brian Hooper.

First Commercial, which opened Sept. 18, 1984, is run by former commercial bankers, Mr. Hooper said. "The savings and loan industry has more opportunities than the banking industry," he said.

The biggest advantage for an Oklahoma thrift is the authority for unlimited branching. Commercial banks in the state have to charter a new institution when they want to open new offices. "We got tired of having to get a new charter every time," Mr. Hooper said.

AmeriFederal in New Jersey has also turned profitable from operations, Mrs. Miller said. The institution opened with a mortgage banking office in New York City, but it has since closed that office down. "We found the expense and communications problem was inappropriate for a start-up business," she said.

The institution benefited from a rate chart that was printed in a local newspaper "on the very week that we opened the bank," Mrs. Miller said. The institution's initial rates drew customers right away.

The savings bank now has about $21 million in retail deposits, with no brokered deposits, she said.

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California S&Ls in 1985: To Have and Have Not

After a year of biting the bullet, West Coast thrifts are split between the strong and the restructuring.

By Cathy Louise Taylor

The era of the go-go thrift in California is fast giving way to the age of the haves and have-nots.

The haves are reporting third-quarter earnings, while the have-nots are restructuring as their new managers slow growth or sell much-criticized investments.

Both contingents have recognized that fast-growth asset building is out. They also realize that traditional mortgage loan origination, with some direct investment in real estate or securities, is in.

The situation is the result of the events of 1985.

"It has been a watershed year, the year we bit the bullet," says Gerald D. Barrone, president and chief executive officer of Fidelity Federal Savings and Loan Association in Glendale. He is also the newly elected chairman of the California League of Savings Institutions, trade group for the state's 212 savings institutions.

William Popejoy, chairman of the nation's largest association, American Savings and Loan Association based in Stockton, characterizes the situation as a "dichotomy."

"We [in California] have some very sick companies, which have been identified and put into receivership," he says. "That's almost a whole different industry."

Gone from the California thrift scene are associations like the old Bell Savings and Loan of San Mateo. The 18-branch thrift grew to $1.9 billion in assets by year-end 1984, up nearly fivefold from $422 million two years earlier, before it was placed in receivership by the Federal Home Loan Bank Board in July.

Another casualty was Santa Ana-based Butterfield Savings and Loan, the thrift regularly referred to by Edwin J. Gray, chairman of the Federal Home Loan Bank Board, because of its ownership of an unprofitable chain of Love's Woodpit Barbecue restaurants.

All told, nine California associations have been placed in receivership so far this year. And two, Central Savings and Loan Association and Eureka Federal Savings and Loan, have elected new boards of directors at the behest of the federal regulators. Assets of the 11 associations total $12.2 billion.

Last year, only two comparable actions — both conservatorships — were taken by federal regulators.

New Tools

The two tools that facilitated the 1985 actions were net worth certificates and management consignment contracts. Net worth certificates are issued by the Federal Savings and Loan Insurance Corporation (FSLIC) to boost the net worth of a foundering institution. Management consignment contracts provide a team of new managers from a stronger association for temporary management assistance. California accounts for 9 of the 13 management consignment contracts arranged nationwide.

By using them, the bank board did not do one assisted merger, liquidation, or payout to depositors in California. Thus, the Federal Savings and Loan Insurance Corporation fund was untouched.

Instead, regulators are relying on the management expertise of the "big buddies," such as California Federal Savings & Loan Association, Home Federal Savings and Loan Association, and Glendale Federal Savings & Loan Association — as well as net worth certificates — to help nurse those ailing institutions back to health.

The aggressive regulatory activity has sent a clear signal to the industry: "You would have to be a Bozo not to see the handwriting," says Sal Serrantino, president of California Research Corp., a banking consultant group based in Santa Monica. He was referring to the bank board's disdain for excessive growth and nontraditional direct investments.

Mr. Gray of the bank board has been vocal about his irritation. In a recent speech to lenders here, he charged that California law "goes well beyond what the Congress intended."

He was referring to California's 1982 legislation, which allows state-chartered thrifts considerably more latitude than those under federal regulation.

For instance, a state association may have unlimited authority to invest directly in real estate, while federal associations may make such investments only through service corporations — and the investment may not exceed 3% of the association's net worth.

The big pinch on this expanded authority, however, occurred in March, 1985, when a new FSLIC regulation became effective. FSLIC members were limited in their direct investments, including real estate development, service corporations, and equities, to 10% of assets or twice net worth, whichever is greater.

A Damper on Activity

The rule put a damper on much California activity because all savings and loans in the state are required to have FSLIC insurance.

"We definitely think the direct investment threshold will help alleviate

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Cathy Louise Taylor is a financial writer based in Santa Ana, Calif.

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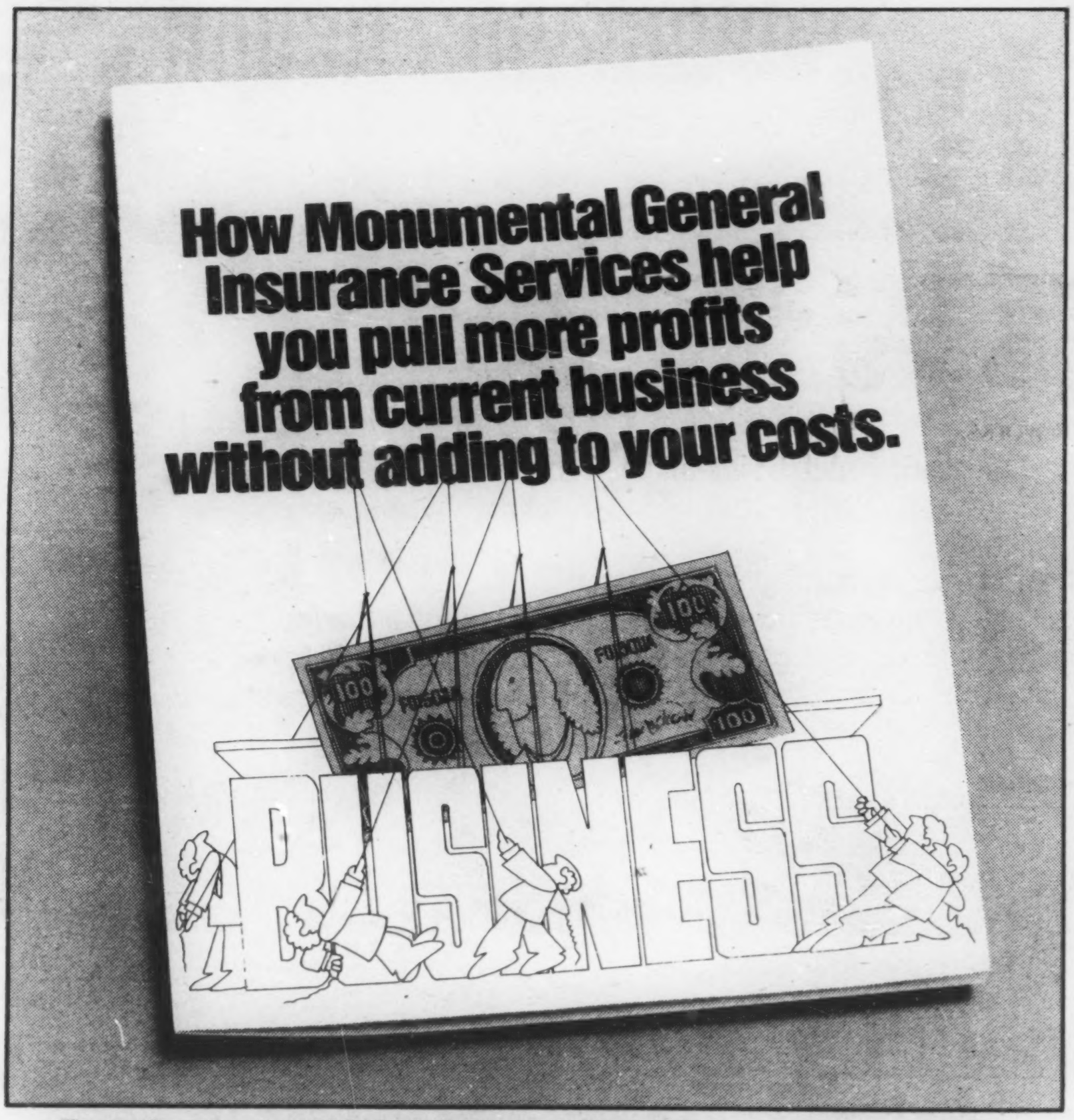
California S&L Regulatory Actions

The Federal Home Loan Bank Board has placed nine California thrifts in receivership so far this year, and requested new boards of directors be elected at two other institutions. Only two comparable actions were taken in 1984.

Association, City	Assets ($ Mil.)	Action
Western Community, El Cerrito	$110.6	Receivership; insured accounts and some accounts transferred to First United Federal, a new Calif. unit of Atlantic Financial, Bala Cynwyd, Pa.
Beverly Hills, Mission Viejo	$2,900	Receivership; new federal mutual assn. formed; management contract with First Nationwide
Central, San Diego	$2,200	Former directors asked to elect new board; management contract with First Federal of Arizona
Southern Calif., Los Angeles	$1,500	Receivership; new federal mutual assn. formed; management contract with Great American First
Eureka Federal, San Carlos	$1,800	Former directors asked to elect new board; management contract with Home Federal
Bell, San Mateo	$1,700	Receivership; management contract with Glendale Federal
Butterfield, Santa Ana	$803	Receivership; management contract with Downey
Centennial, Guerneville	$405	Receivership; new federal mutual formed; management contract with Great Western
Presidio, Porterville	$286	Receivership; management contract with California Federal
Golden Pacific, Windsor	$43	Receivership; given a new charter; two directors added; president retained
Farmers, Dixon	$833	Receivership; management contract with California Federal

Source: Federal Home Loan Bank Board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problems in California," says Martha Gravlee, a bank board spokeswoman.

And there is a state regulatory move afoot to limit direct investments. California Insurance Commissioner William Crawford says he expects a new regulation, allowing only 20% of assets in direct investments, to become effective in mid-January.

"With the way the federal regulations now stand, I can't see anyone being hurt by the new regulation. But at least we won't have anybody going around making speeches," he says, referring to the many attacks on California's liberal investment stand.

Another bit of fallout is a wane in interest in opening new state-chartered savings and loans. In fact, 18 groups that received approval from the state department of savings and loans let their applications lapse. As a result the department revoked the approvals.

More are expected to wash out of the logjam of applicants as extension filing deadlines pass. There are 96 associations that have been approved but have not opened their doors, and 68 awaiting a decision, according to the department.

Commissioner Crawford isn't worried about the lack of new applications. He would like to see the approval rate return to the historical level of seven per year.

Tighter federal regulations also dampened enthusiasm at federally chartered associations to switch to state chartered, according to Mr. Barrone.

"My sense is there is no stampede now to convert from a federal to state charter," he says. "We have enough authority as federal associations and some of the fringe investments [allowed by a state charter] we're not interested in," he added.

That's a change from 1984, when six savings and loans switched: Gibraltar Savings & Loan Association, Beverly Hills; Great American First Savings Bank, San Diego; Imperial Savings Association, San Diego; Coast Savings and Loan Association, Los Angeles; Pacific Savings Bank, Costa Mesa; and United Savings Bank, San Francisco.

Five more have filed in 1985 to convert, the largest being Beverly Hills-based Great Western Savings, with $21.7 billion in assets. None have been approved.

"Our application is still pending; we have not made up our mind," says Lance Erikson, a spokesman for Great Western. He quickly points out that Great Western never intended to make broad use of the expanded powers and, in fact, federal rules may suffice.

Great Western's response reveals a new sensitivity at savings and loans about their investment activity.

For instance, Mutual Savings and Loan, a $340-million association based

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Savings Institutions' Holding Companies

Listed in Order of Their Total Assets on December 31, 1984

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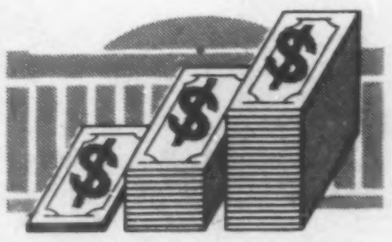
	Name of Holding Co. and its Type (a) / It's Savings Institution (S.I.) Subsidiary (b)	TOTAL ASSETS 12/31/84	TOTAL ASSETS 12/31/83	1983 Rank	Gain	TOTAL DEPOSITS 12/31/84	TOTAL DEPOSITS 12/31/83	1984 NET INCOME Of Parent Co.	1984 NET INCOME Of S.I. Subs.	S.I.s Contr.
1	Citicorp, New York (N,c) Citicorp Savings of Illinois, FS&LA, Chicago	150,586,000,000	134,655,000,000	1		8,475,000,000	2,093,438,025	890,000,000	(16,000,000)	3
2	Sears Roebuck & Co., Chicago (D) Sears Savings Bank, Glendale, Calif.	57,072,500,000	46,176,100,000	2		4,584,700,000	3,801,439,000	1,454,800,000	(5,500,000)	1
3	Financial Corp. of America, Irvine, Calif. (N) American Savings & Loan Assn., Stockton	28,518,401,000	22,700,448,000	3		20,326,639,000	18,261,705,000	(603,460,000)	(584,921,000)	1
4	H.F. Ahmanson & Co., Los Angeles (N) Home Savings of America, FA, Irwindale, Calif.	24,307,412,000	20,226,213,000	4		18,544,525,000	15,057,000,000	48,223,000	50,621,000	1
5	Great Western Financial Corp., Beverly Hills (N) Great Western Savings, FS&LA, Beverly Hills	23,554,602,000	18,639,336,000	5		16,930,924,000	13,516,303,000	99,510,000	101,327,000	1
6	CalFed, Inc., Los Angeles (N) California Federal Savings & Loan Assn., Los Angeles	17,698,588,000	14,328,929,000	6		14,283,599,000	11,116,202,000	69,010,000	1,000,000	1
7	Goldome FSB, Buffalo, N.Y. (N) Goldome Savings Bank, St. Petersburg (d)	12,824,761,000	11,581,328,000	7		1,528,857,000	9,840,408,000	3,900,000	(24,894,000)	1
8	Golden West Financial Corp., Oakland, Calif. (N) World Savings & Loan Assn., Oakland	10,619,724,000	8,185,599,356	9	+1	7,461,163,000	5,766,660,588	80,860,000	81,645,000	1
9	Household International, Inc. Prospect Heights, Ill. (D) Household Bank FSB, Westminster, Calif.	10,041,000,000	8,446,000,000	8		587,300,000	187,100,000	234,100,000	(1,900,000)	1
10	First Nationwide Financial Corp., San Francisco (N,e,f) First Nationwide Savings, FS&LA, San Francisco	9,460,950,000	.....	...		6,560,319,000	.....	31,541,000	29,365,000	1
11	Gibraltar Financial Corp., Beverly Hills (N,g) Gibraltar Savings, FS&LA, Beverly Hills	9,272,722,000	6,047,007,093	12	+1	6,528,373,000	3,691,665,052	31,044,000	33,575,000	2
12	Imperial Corp. of America, San Diego, Calif. (N,h) Imperial Savings Assn., San Diego	8,464,977,000	6,110,285,000	11		5,726,084,000	4,403,437,000	10,037,000	11,632,730	2
13	Gulf & Western Industries Inc., New York (D,i) Associates Fed. Savings & Loan Assn., San Ramon, Calif. (j)	7,841,109,000	6,815,064,000	10		11,468,000	9,771,000	143,574,000	281,000	1
14	CityFed Financial Corp., Palm Beach, Fla. (N) City Federal Savings & Loan Assn., Elizabeth, N.J.	7,594,563,000	.....	...		6,165,801,000	.....	61,965,000	62,056,000	1
15	First Texas Financial Corp., Dallas (N,k) Gibraltar Savings Assn., Houston	7,210,445,000	2,799,252,923	17	+2	5,552,594,000	2,030,096,318	1,371,000	1,666,000	2
16	American Financial Corp., Cincinnati (D) Hunter Savings Assn., Cincinnati	5,101,635,000	4,825,000,000	13		455,916,000	419,812,000	45,360,000	N.A.	1
17	Long Island Savings Bank FSB, Syosset, N.Y. (N) Long Island Savings Bank of Centereach, N.Y.	4,302,556,000	4,062,663,000	14		3,336,239,000	3,290,883,000	20,965,000	3,408,000	1
18	People's Bank, Bridgeport, Conn. (N) Guardian Federal Savings & Loan Assn., Bridgeport	3,963,862,000	3,728,150,000	15		1,718,090	3,225,235,000	11,526,000	(60,557)	1
19	United Financial Group, Inc., Houston (N) United Savings Assn., Houston	3,633,136,000	.....	...		2,285,522	.....	50,321,000	55,204,000	1
20	American Continental Corp., Phoenix, Ariz. (N) Lincoln Savings & Loan Assn., Irvine, Calif.	3,301,916,000	.....	...		1,679,651,000	.....	20,513,000	12,436,000	1
21	Western Capital Investment Corp., Denver (N) Bank Western Federal Savings Bank, Denver	3,117,671,000	.....	...		2,320,717,000	.....	4,749,000	4,749,000	1
22	Homestead Financial Corp., Burlingame, Calif. (N) Homestead Savings, FS&LA, San Francisco	3,038,143,000	1,414,913,000	29	+7	2,228,524,000	761,238,000	471,000	13,003,000	1
23	Financial Corp. of Santa Barbara, Calif. (N) Santa Barbara Savings & Loan Assn.	2,912,329,000	2,483,467,000	19		2,094,538,000	1,823,905,000	282,000	(21,576,000)	1
24	Citadel Holding Corp., Glendale, Calif. (N,l) Fidelity Federal Savings & Loan Assn., Glendale	2,844,579,000	2,206,854,000	22		1,926,143,000	1,449,582,000	6,880,000	6,880,000	1
25	Guarantee Financial Corp. of California, Fresno (N) Guarantee Savings, FS&LA, Fresno	2,843,300,000	2,365,880,117	21		1,918,828,000	1,470,768,047	3,003,000	3,702,000	1
26	American Capital Corp., Miami (D,m) Transohio Savings Bank, FSB, Cleveland	2,823,068,000	.....	...		2,245,755,000	.....	5,757,000	6,266,000	1
27	Old Stone Corp., Providence, R.I. (N,n) Old Stone Bank FSB, Providence	2,625,081,000	.....	...		2,127,606,000	.....	18,395,000	16,521,000	3
28	First Columbia Financial Corp., Denver (N) Columbia Savings, FS&LA, Denver	2,499,042,000	1,613,128,000	25		1,893,175,000	1,302,946,380	5,589,000	2,320,000	1
29	Commercial Federal Corp., Omaha, Neb. (N) Commercial Federal Savings & Loan Assn. Omaha	2,498,884,000	.....	...		1,312,940,000	.....	3,838,000	3,838,000	1
30	Broadview Financial Corp., Cleveland (N) Broadview Savings & Loan Co., Cleveland	2,088,284,000	2,019,502,409	24		1,591,730,000	1,448,209,068	(14,282,000)	(7,556,000)	1
31	Southmark Holding Corp., Houston (N,o) San Jacinto Savings Assn., Houston	2,064,244,294	.....	...		1,127,146,826	.....	16,804,000	18,019,000	1
32	Far West Financial Corp., Newport Beach, Calif. (N) Far West Savings & Loan Assn., Newport Beach	2,050,255,000	1,518,690,711	27		1,342,157,000	1,173,674,234	12,776,000	13,132,000	1
33	Fortune Financial Group, Inc., Clearwater, Fla. (N,p) Fortune Federal Savings & Loan Assn., Clearwater	2,041,361,000	.....	...		1,274,015,000	.....	4,109,000	4,173,000	1
34	Citizens Savings Financial Corp., Miami (N) Citizens Federal Savings & Loan Assn., Miami	1,906,676,000	1,506,032,857	28		1,314,568,000	1,187,762,213	6,580,000	7,454,000	1
35	Security Capital Corp., New York (N) Benjamin Franklin Savings Assn., Houston	1,895,540,243	993,922,975	37	+2	1,477,091,460	740,654,640	10,346,649	12,187,539	1
36	Heron Financial Corp., Tucson, Ariz. (N) Pima Savings & Loan Assn., Tucson	1,793,597,000	1,163,247,000	35		1,074,184,000	759,671,000	18,874,000	15,289,000	1
37	Diamond Financial Holdings Inc., Maumee, Ohio (N) Diamond Savings & Loan Co., Findlay	1,605,000,000	1,332,195,000	31		909,000,000	836,675,000	(11,515,000)	(5,950,000)	1
38	Lamar Financial Corp., Austin, Tex. (N,q) Lamar Savings Assn., Austin	1,508,126,542	2,060,697,875	23		1,409,602,237	1,846,870,568	N.A.	N.A.	2
39	Ohio Savings Financial Corp., Cleveland (N) Ohio Savings Assn., Cleveland	1,498,214,895	1,582,023,000	26		1,316,611,125	1,348,198,000	4,793,000	6,223,000	1
40	Western Capital Corp., Dallas (N) Western Savings Assn., Dallas	1,475,706,808	507,412,032	46	+6	881,517,327	329,810,802	(477,078)	19,509,675	1
41	AmeriWest Financial Corp., Albuquerque, N.M. (N,r) Albuquerque Federal Savings & Loan Assn.	1,411,028,000	1,164,440,000	34		1,095,213,921	747,619,000	5,445,000	5,341,000	1
42	Landmark Land Co., Inc., Carmel, Calif. (N) Dixie Savings & Loan Assn., New Orleans, La.	1,219,000,000	986,219,000	38		815,000,000	602,176,000	338,000	11,207,000	1
43	Buckeye Financial Corp., Columbus, Ohio (N) Buckeye Federal Savings & Loan Assn., Columbus	1,196,248,000	1,191,877,000	33		906,602,000	903,928,000	1,332,000	N.A.	1
44	Nafco Financial Group, Inc., Naples, Fla. (N) Naples Federal Savings & Loan Assn.	1,096,230,000	939,731,000	39		830,426,000	745,142,000	3,166,000	2,989,000	1
45	First Western Financial Corp., Las Vegas, Nev. (N) First Western Savings Assn., Las Vegas	1,049,767,000	1,018,000,000	36		861,865,000	851,237,000	6,564,000	8,267,000	1
46	The One Bancorp, Portland, Me. (N,s) Maine Savings Bank, Portland	963,762,000	.....	...		840,586,000	.....	6,895,000	5,926,000	1
47	Amoskeag Bank Shares, Inc., Manchester, N.H. (N) Amoskeag Savings Bank, Manchester	921,061,821	586,745,471	44		527,086,220	463,346,437	8,032,564	6,358,419	1
48	Westchester Financial Services Corp., New Rochelle, N.Y (N) Westchester Federal Savings Bank	908,911,486	.....	...		658,289,871	.....	4,114,450	4,349,355	1
49	American Century Corp., San Antonio, Tex. (N) Commerce Savings Assn., Dallas	875,466,000	N.A.	...		671,857,000	N.A.	2,147,000	4,589,000	1
50	Butterfield Equities Corp., Santa Anna, Calif. (N,t) Butterfield Savings & Loan Assn., Santa Anna	872,436,847	500,226,174	47		745,544,021	458,371,787	(6,496,155)	(6,122,431)	1

Total Assets: consolidated assets for the parent company and all its subsidiaries are use, whenever possible. However, some diversified companies do not consolidate the assets of their savings institution subsidiaries. In many cases, these diversified companies have established financial services holding companies, which are the direct parent of their savings institution subsidiariers. In these cases, the assets for the financial services holding companies are used, whenever possible. **Total deposits:** the deposits for the savings institution subsidiary only are used. If a company has more than one savings subsidiary, coimbined deposits for all of these subsidiaries are used, whenever possible. **Net Income:** income after taxes and loan loss provisions, but before extraordinary items is used. If a company has more than one savings institution subsidiary, the combined net income for all of these institutions is used, whenever possible. **(a)** — Types: D—Diversified, N—Non-Diversified. **(b)** — If a holding company owns more than one savings institution, as indicated in the last column, the name of the largest institution is reported below the name of the company. **(c)** — Also owns Citicorp Savings, FS& LA, San Francisco, and Citicorp Savings of Florida, FS& LA, Miami. **(d)** — Palmetto Federal S&L Assn., Palmetto, Fla., and Goldome Savings Assn., St. Petersburg, Fla., were merged in Dec. 1984, to form Goldome Savings Bank. **(e)** — Company is, in turn, owned by National Intergroup, Inc., Pittsburgh. **(f)**— In August, Ford Motor Co. agreed to acquired First Nationwide Financial Corp. for $493 million. **(g)** — Also owns Gibraltar Savings of Washington FA, Seattle (formerly Queen City S&L Assn.), which was acquired in July 1984. **(h)** — Also owns American Savings Association of Kansas, Wichita. On June 30, 1984, the company merged another of its S&L subsidiaries, Silver State S&L Assn., Denver, into American Savings.The 1984 deposits and net income shown for savings institution subsidiaries are for Imperial Savings Assn. only. **(i)** — Current data are as of July 31, 1985, and are for Associates First Capital Corp., the financial services subsidiary of Gulf & Western. **(j)** — A direct subsidiary of Associates First Capital Corp., which in turn is owned by Gulf & Western. **(k)** — Also owns First Texas Savings Association, Dallas. **(l)** — As of Aug. 1985, Great Western Financial Corp. has a definitive agreement to acquire Citadel. **(m)** — Acquired Transohio Financial Corp. on 7/24/84. **(n)** — In Oct. 1984, Old Stone Bank, a commercial bank, converted into a federal savings bank. Old Stone Corp. also owns Guild Loan and Investment Co., Providence, R.I., and Old Stone Savings and Loan, High Point, N.C. Old Stone Savings and Loan name was changed from Perpetual Savings and Loan Association when Perpetual Savings was merged with First Federal S&L Assn., Catawba County, N.C., on 4/1/85. **(o)** — Net income figures are for the fiscal year ending 6/30/85. **(p)** — Data are for the fiscal year ended 9/30/84. **(q)** — Also owns City S&L Assn., San Angelo, Tex. **(r)** — Data are for the fiscal year ending 6/30/85. **(s)** — Maine Savings Bank converted from mutual to stock ownership in the middle of 1984 and formed The One Bancorp. **(t)** — Data are for fiscal year ended 6/30/84. **(N.A.)** — Not available.



Continued from Page 20

in Pasadena, stridently distances itself from a recent action of its parent, Wesco Financial Corp.

Wesco announced it formed a Nebraska-based, wholly-owned subsidiary with authority to engage in the property and casualty insurance and reinsurance business. Wesco contributed $45 million in cash and cash equivalents to the new company, called Wes-FIC. The company's volume of earned reinsurance premiums is expected to hit $60 million in the first 12 months.

"This in no way impacts Mutual Savings and Loan — I want that to be perfectly clear," says Jeffrey Jacobson, vice president and chief financial officer of Wesco Financial and Mutual.

Mr. Jacobson says the move is the result of planning on the part of the firm's 80% owner, Berkshire Hathaway, the Omaha-based reinsurer and operator of children's apparel stores. Berkshire wants to take advantage of what it sees as an impending upturn in the insurance business.

While the unusual is downplayed, capital adequacy has become the clarion call as all institutions rush to project safety and soundness. Mr. Serrantino calls it the "my rock is bigger than your rock" phenomenon, as he views the recent crop of advertising messages equating an institution's health with the longevity of Yosemite's El Capitan, giant sequoia trees, and other natural wonders.

Many California institutions are justified, observers say, because overall the industry "is terribly improved from a year ago," as Mr. Popejoy put it.

The "haves" among California thrifts have entered an era of "managed, controlled growth," Mr. Serrantino says.

It is evidenced by several factors. For one, the combined assets of California savings institutions increased by little more than 1% from March 31 to June 30. In the same period in 1984, combined assets rose 10%.

And thanks to stable interest rates and healthy lending increases, scores of thrifts posted record earnings for the third quarter ended Sept. 30.

American Savings and Loan, among the weakest thrifts in the nation a year ago, reported its first profitable quarter in a year.

Stronger institutions did even better. H.F. Ahmanson, parent of Home Savings of America with $24.6 billion in assets, reported its earnings rose nearly 18-fold in the latest quarter.

CalFed's quarterly earnings increased to $40.7 million from $3 million the prior year; Great Western's profit swelled to $57.4 million from $15.8 million in third-quarter 1984.

Smaller institutions were just as robust. Mercury Savings and Loan, a $2 billion association based in Huntington Beach, posted $2.3 million in net earnings in the quarter, up from $444,000 the year before.

The good earnings news is likely to extend to full-year results, Mr. Popejoy and Mr. Barrone say.

"The key [to good earnings] is to use them to restructure the balance sheet for the next roller coaster ride," Mr. Crawford says. He cites Great Western's loan portfolio, which has 65% of its earning assets in adjustable-rate mortgages and short-term investments.

But there still are problems ahead. The real estate troubles that have plagued thrift balance sheets will not be left behind in 1985, Mr. Popejoy believes. Asset writedowns, though not as deep as in the past, are in the offing.

And everyone is keeping a close eye on the interest rates.

"We have several plans, with several interest rate assumptions," Mr. Popejoy says. "We are guiding our company under the one that assumes a little worse than [the optimism] in our hearts and heads." ■

Industry Downturn Brings Lone Star Thrift Scrutiny

State savings and loan commissioner recognizes some bad apples in the Texas thrifts basket.

By Tom Scott

THE STATE OF HEALTH of Texas savings and loans is drawing the interest of a lot of people in light of the massive downturn in the oil industry and record foreclosures on residential and commercial property in Houston.

An indication of the concern was evidenced by state and federal regulators this summer. The Federal Home Loan Bank Board (FHLBB) of Dallas last June announced that it would not insure any new state S&Ls in Texas until certain reporting requirements were met. Officials of the Bank Board reportedly were unhappy with the state's regulatory procedures involving the savings and loan industry.

The matter blew over the next month after FHLBB regulators and L.L. Bowman, state savings and loan commissioner, resolved their differences — but not before drawing public attention to the problem.

The agreement calls for periodic review by the FHLBB and sets out certain examination procedures to be followed — evidence of the federal government taking a more than cursory interest in the state's S&Ls.

It is Mr. Bowman's job to see that the Texas institutions are overseen properly, and in a recent interview he admitted that the health of certain S&Ls in Texas is questionable.

"I'd say about 80% are O.K.," Mr. Bowman said. "The reason I characterize it that way is because there are still

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If you're going to increase your bank's profitability, you're going to have to increase productivity and improve customer service.
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In the areas of new account processing, electronic journal review, and printing capabilities, 90% of the operators chose the Pinnacle system and 70% chose the Pinnacle system in terms of user-friendliness and overall

Top 50 Thrift Parents Post Big Increase In Deposit Share, According to Survey

Continued from Page 1

dustry — savings banks and savings and loans — rose by only 11.2% in 1984, to $904.9 billion from $807.2 billion.

These are some of the findings of *American Banker's* fifth annual survey of the nation's top thrift holding companies. The listing includes holding companies for both savings banks and savings and loan associations.

Two acquisitions by the $151 billion-asset Citicorp — the nation's top commercial banking firm and the nation's top thrift holding company — accounted for more than 11% of the deposit gain posted by the top 50 firms. In January 1984, Citicorp acquired two troubled S&Ls: First Federal Savings and Loan Association of Chicago and New Biscayne Federal Savings and Loan Association of Miami. Subsequently, the thrifts were renamed Citicorp Savings of Illinois FS&LA and Citicorp Savings of Florida FS&LA. The Chicago-based thrift ranked 27th in deposits at yearend 1984 with $3.6 billion, and the Miami-based S&L ranked 66th with $2.1 billion.

Citicorp became an S&L holding company in 1982 with the acquisition of Fidelity Savings and Loan Association in San Francisco. At yearend 1984, Citicorp Savings FS&LA, as the S&L is now known, had $2.8 billion in deposits to rank 44th among the top thrifts in deposits.

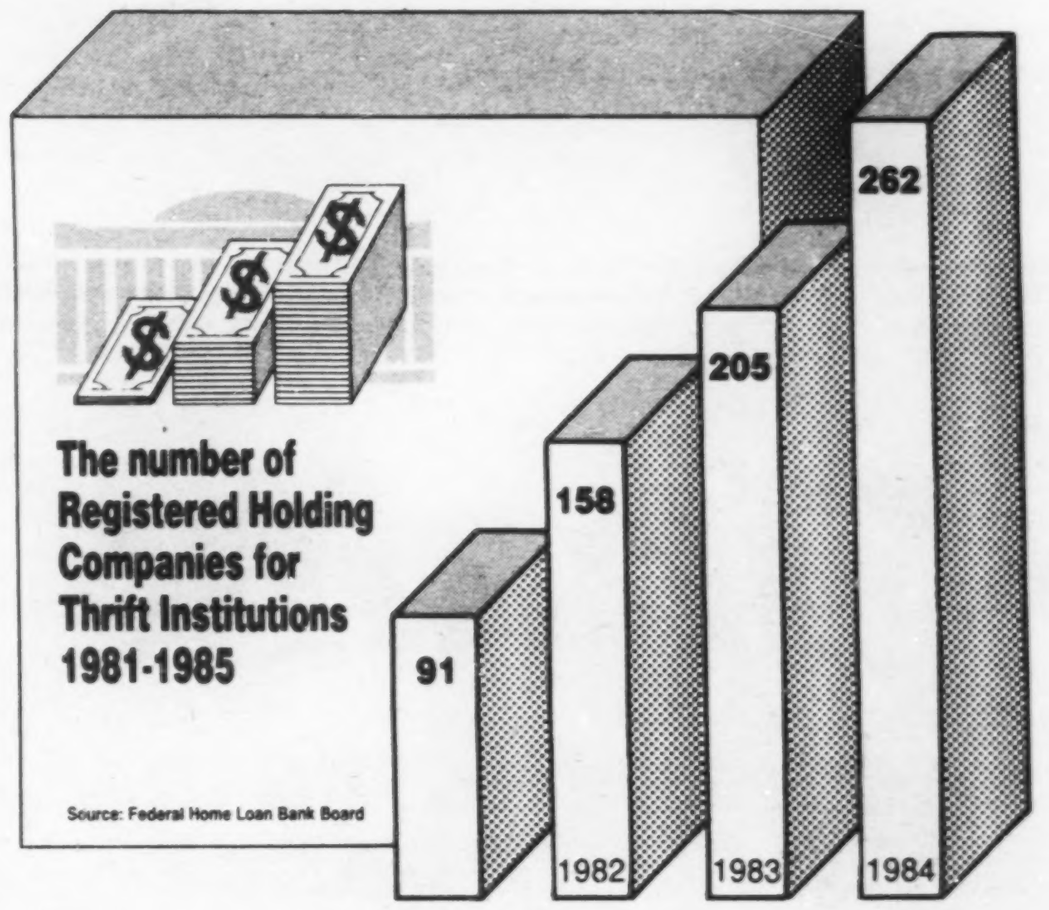
An acquisition by the $7.2 billion-asset Texas Financial Corp. of Dallas, the 15th largest thrift holding company, accounted for more than 6% of the deposit gain posted by the top 50 firms. Texas Financial acquired the $3.1 billion-deposit Gibraltar Savings Association of Houston on June 29, 1984. Texas Financial also owns the $2.4 billion-deposit First Texas Savings Association in Dallas.

Despite the gain in market share, the top 50 firms in the savings industry hold a substantially smaller share of their market than commercial banking firms. The top 50 commercial banking firms controlled almost 46% of commercial banking deposits at yearend 1984.

American Banker also found that the number of companies registered by the Federal Home Loan Bank Board to become savings and loan holding companies rose 27.8% last year, after increasing by almost 30% in 1983. The major factor in this increase is the movement by many S&Ls to stock ownership.

According to data from the Bank Board, there were 262 registered holding companies at yearend 1984, up 27.8% from 205 registered holding

➳ Top 50: Page 42



Addenda: Late Changes In Top-50 Thrift List

Four corrections in the listing of the top-50 savings institution holding companies on page 22 arrived too late for inclusion in the table. All of the corrections reflect changes in the total deposits category. Production schedules did not make it possible to correct the listing before publication.

The listing includes savings institutions that also own other savings institutions. Two of the corrections involve such institutions: seventh-ranked Goldome FSB, Buffalo, N.Y., and 18th-ranked Peoples Bank, Bridgeport, Conn. The 1984 deposits shown for these institutions only include the deposits of the respective savings institutions which they own. However, since they are savings institutions themselves, their deposit totals should include their deposits.

- Goldome had $9.8 billion in deposits on Dec. 31. If these deposits are added to the $1.5 billion in deposits reported for Goldome Savings Bank, St. Petersburg, Fla., Goldome FSB controlled $11.3 billion in savings institution deposits at yearend.
- Similarly, Peoples Bank had $3.444 billion in deposits at yearend. When the $1.7 million in deposits of Guardian Federal S&L Association are added to this total, Peoples Bank controlled savings institution deposits of $3.445 billion at yearend.
- The Dec. 31, 1983, deposit total for 10th-ranked First Nationwide Financial Corp., San Francisco, is not shown. Its deposits totaled $5.9 billion.
- The fourth error is the Dec. 31, 1984, deposit figure reported for 19th-ranked United Financial Group Inc., Houston. The deposits controlled by this institution totalled $2.29 billion and not $2.29 million as reported. ■

The Sears Sounding Board

"Technology is driving radical change in the delivery and even the definition of financial services."

Walter B. Wriston, former Chairman, Citicorp/Citibank, speaks out on the subject of financial services deregulation.

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Quoted above is a sample of Walter B. Wriston's thoughts on this controversial topic. For your FREE COPY of his complete white paper, fill out the coupon and mail to: Sears Financial Network, P.O. Box 8597, Chicago, Illinois 60680.

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Levy . . .

Continued from Back Page

der control of the old management," he said. "Management consignment contains the problem, utilizing talent out in the field."

"What we're looking at is a mosaic," Mr. Levy said, with the management consignment program as one piece of the mosaic that the board is creating to solve the thrift industry's problems. Another piece of the mosaic is the so-called "406 Corp.," he said.

The proposed new corporation would be a savings and loan set up by the Bank Board to dispose of the assets of failed institutions. The corporation is not yet operational because it has to go through the Bank Board's charter approval process, Mr. Levy said.

"We're not creating a federal agency," he stressed. "We're establishing a savings and loan."

The application process for a new thrift charter is slow, even for a special association like this one. "Nothing gets acted on in three weeks," Mr. Levy said.

The FSLIC has only 23 or 24 people who work on disposing of assets of failed institutions, he said. "They can't deal or cope with problem assets. They just don't have the people to deal with it."

The new asset corporation would "bring in new entrepreneurial types, not savings and loan types," he said. "It needs people who are creative in putting deals together."

The thrift industry's image has taken a beating this year, due in part to the well-publicized problems in Ohio and Maryland. But Mr. Levy doesn't think the image problem is unique to thrifts. "I think there's a sense of concern by the public about all institutions," he said. "Both industries [thrifts and commercial banks] have to build back credibility."

Farm Credit Bank Woes

Problems associated with any financial institution affect the public's perception of all institutions, he said, citing the huge losses recently announced by the Farm Credit Banks. "People don't even understand what [a Farm Credit Bank] is," he said. "It's a continuation of the kind of bad news that shakes people up."

On the positive side of the thrift industry, Mr. Levy points to the strong earnings performance this year. "We're moving to a real change in the economic picture and bottom-line profits," he said.

The U.S. League is predicting net income for the industry of more than $5 billion this year, topping the record of $3.9 billion set in 1978. About 85% to 90% of the institutions are profitable, he said.

Mr. Levy's institution, Guaranty Savings, had a return on assets of 0.95% for the fiscal year that ended Sept. 30. Guaranty, with more than $200 million in assets, is primarily involved in mortgage banking. "We have focused on our strength, which is mortgage lending."

Thrifts have benefited from lower interest rates this year, but will probably not be hurt if rates rise next year, Mr. Levy said. "Even if rates were to turn around at yearend and start rising, there would be a lag effect," and earnings would still be strong.

Mr. Levy is looking to a profitable year for the industry in 1986. "The outlook is essentially tied to interest rates," he said.

A second straight year of strong earnings would be a big boost for the industry as it recovers from its problems over the last few years. "It would go a long way to restoring health," he said. ■

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BHC Securities, Inc.

Top 50 . . .

Continued from Page 41

companies in 1983. In 1982, 158 holding companies were registered, and in 1981, there were just 93 holding companies.

180 Companies Surveyed

American Banker surveyed 180 holding companies. Of this total, 83 submitted data for the survey. Three others indicated that they began operating in 1985, while five no longer exist, having been either acquired through merger or collapsed into their savings subsidiary. Four stated that they no longer owned a savings institution, and 85 did not respond.

From those reporting, the top 50 — based on their consolidated assets on Dec. 31, 1984 — are listed. However, some diversified companies do not consolidate the assets of their thrift subsidiaries. In many cases, these diversified companies have established financial services holding companies, which are the direct parent of their thrift subsidiaries. In these cases, the assets for the financial services holding companies are used whenever possible.

The listing includes both diversified holding companies, such as Sears, and nondiversified holding companies, such as Citicorp. A diversified holding company is defined as a company whose income comes primarily from activities not related to their thrift business. A nondiversified holding company is one whose nonthrift holdings and activities are related to the thrift business. Included among the nondiversified companies are thrifts that own other thrifts.

Other Survey Findings

- Assets of the top 50 thrift holding companies were $461 billion on Dec. 31, 1984, up 26.4% from $364.6 billion for the top 50 firms a year earlier. The top 50 controlled 58 thrifts at yearend 1984, compared with 56 institutions controlled by the top 50 a year earlier.
- The top 50 companies consisted of 45 nondiversified companies with combined assets of $378.1 billion and five diversified companies with combined assets of $82.9 billion. A year earlier, the top 50 firms had 44 nondiversified firms and six diversified firms, with assets of $292.6 billion and $72 billion, respectively.
- The largest gain in rank among the top 50 was posted by the Homestead Financial Corp. of Burlingame, Calif. Its assets increased 115% to $3.04 billion at yearend 1984 from $1.41 billion at yearend 1983, moving it up seven places in rank to 22d place. Homestead Financial is the parent of Homestead Savings FS&LA, San Francisco, the nation's 61st largest thrift with deposits of $2.2 billion at yearend. ■

KBW

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Lafayette, Indiana

has been acquired by

Indiana National Corporation
Indianapolis, Indiana

The undersigned, in its capacity as financial advisor to Lafayette National Corporation, assisted in the negotiations leading to the consummation of this transaction.

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NEW YORK HARTFORD SAN FRANCISCO LONDON

November 1, 1985

The Markets

Money Market

Friday, November 1, 1985

Federal funds range 8¼-8⅜%
Prime rate (6/19/85) 9½%
Discount rate FRB of New York (5/17/85) 7½%
Call Loans on Securities:
To brokers on stock exchange collateral 9¼%
To dealers on U.S. Gov't Securities 8⅜%

Bankers Accepts. offering rate—discount basis (11/1/85)

30 days—7.80	60 days—7.73	90 days—7.70
120 days—7.70	180 days—7.65	

NY. City Banks' CDs — Highest Offering Rate (11/1/85)

14 days—7.30	30 days—7.40	60 days—7.45
90 days—7.45	120 days—7.45	150 days—7.50
180 days—7.50	270 days—7.55	360 days—7.60

Aaa Dealer Comm'l paper—discount basis (11/1/85)

30 days—7.75	60 days—7.75	90 days—7.70

Comm'l Paper Directly Placed—Range disc. Basis (11/1/85)

5-14 days—7½-7.90	15-29days—7½-7.85
30-59 days—7½-7.80	60-89 days—7½-7.70
90-179 days—7½-7.70	180-270 days—7⅜-7.50

Eurodollar Deposits—London bid (11/1/85)

Overnight—8⅜	7 days—8 15/16
1 mo.—8 15/16	3 mos.—8
6 mos.—8	1 year—8¼

NIBOR (6-month) 8⅛%
LIBOR (6-month) 8 1/16%

Futures Markets

The Bond Buyer Municipal Bond Index

	Nov. 1, 1985	Oct. 31, 1985	Oct. 25, 1985
Index	87-06	86-23	86-01
Yield	9.74%	9.81%	9.92%

The Bond Buyer Municipal Bond Index was designed by the Chicago Board of Trade to serve as the basis for trading Long-Term Municipal Bond futures contracts when approved by the Commodity Futures Trading Commission. The Index represents an average of the figures obtained when the price of each of 40 select term bonds is divided by a figure derived from the amount at which the bond would be priced to yield 8%. In all computations, the maturity of a bond is represented by its first call at par. The Index is computed daily and is quoted in points and 32nds.

3-Month Domestic CD Futures (IMM)*

Delivery Month	High	Low	Settle	Change (a)	Yield(b)
Dec. '85.	92.42	92.26	92.38	+ 3	7.62
Mar. '86.	92.16	92.12	92.17	+ 4	7.83
June '86	.....	.....	91.80	+ 4	8.20
Sept '86.	91.44	91.44	91.43	+ 4	8.57
Dec. '86.	.....	.....	91.07	+ 4	8.93
Mar. '87.	.....	.....	90.73	+ 4	9.27

As of the previous day's close; Total no. of contracts traded: 67 total open interest: 2,037 and change in open interest:-3.

3-Month T-Bill Futures (IMM)**

Delivery Month	High	Low	Settle	Change (a)	Yield(b)
Dec. '85.	93.04	92.94	93.00	unch	7.00
Mar. '86.	92.90	92.78	92.85	unch	7.15
June '86	92.58	92.45	92.53	+ 2	7.47
Sept.'86.	92.22	92.13	92.19	+ 3	7.81
Dec. '86.	91.91	91.81	91.86	+ 2	8.14
Mar. '87.	91.55	.....	91.55	+ 3	8.45
June '87	91.29	91.29	91.28	+ 3	8.72
Sept.'87.	.....	.....	91.02	+ 2	8.98

As of the previous day's close; Total no. of contracts traded: 6,685 total open interest: 40,034 and change in open interest:+152.

American Banker Index

Selected Money Center Bank Stocks*

		High	Low	Last
Nov. 1...293.1	1985	318.8	242.7	293.1
Oct. 31 ...290.4	1984	269.6	178.4	246.3
Oct. 30 ...290.2	1983	299.6	223.1	260.2
Oct. 29 ...284.3	1982	268.2	168.7	233.2
Oct. 28 ...280.0	1981	186.0	138.0	184.2

* Based on midday prices.

Gold Coins

Coin Name & Weight	$ Value per Coin Nov. 1	Oct. 31
Krugerrand (1 Troy oz.)	332.10	330.50
Maple Leaf (1 Troy oz.)	339.60	338.00
Mexican Onza (1 Troy oz.)	341.60	340.00
Chinese Panda (1 Troy oz.)	349.10	347.00
U.S. Medallion (1 Troy oz.)	339.10	337.50
Mexican 50 Peso (1.2 Troy oz.)	408.80	406.90
Austrian 100 Corona (.98 Troy oz.)	321.00	319.50
S. Afr. ¼ Rand (.25 Troy oz.)	90.00	89.60
U.S. Medallion (.50 Troy oz.)	170.30	169.50

These quotes represent the N.Y fixing price, which are a midprice between what buyers are bidding and sellers are asking. The prices are quoted by Deak Perera, but may vary among dealers, depending on market conditions.

New Thrifts . . .

Continued from Page 8

AmeriFederal could probably expand faster without taking risks, Mrs. Miller said. The savings bank is heavily involved in mortgage banking, which she said is a labor intensive business. AmeriFederal could take on more assets without having to significantly increase its staff or add on more expenses, she said.

"We could grow prudently faster than we're allowed to," she said. "The few high-flyers are making it difficult for all of us." ■

Bankers Trust Unit Joins New York Exchange

By ANDREW ALBERT

NEW YORK — An institutional brokerage unit of Bankers Trust New York Corp. was accepted as a member of the New York Stock Exchange Friday and immediately launched its trading operations on the exchange floor.

Last summer, Bankers Trust announced plans for its subsidiary, BT Brokerage Corp., to begin executing stock trades for the institutions and wealthy individuals already using the bank's custody services.

BT Brokerage won Federal Reserve Board approval in April and last summer was registered with the Securities and Exchange Commission as a broker-dealer. Friday's acceptance as a Big Board member represented the final obstacle for the unit.

Through BT Brokerage, Bankers Trust becomes one of a dozen or so banks with affiliates that hold seats on the New York Stock Exchange. The new Bankers Trust subsidiary is believed to have paid between $380,000 and $480,000 for its seat on the exchange.

Big Board membership allows the unit to set up its own floor trading operation, which BT Brokerage started under the leadership of Paul I. Olsen. Mr. Olsen was hired from A.G. Edwards & Sons Inc., a regional brokerage firm based in St. Louis. He was named vice president and director of the unit's floor trading.

Paul W. Higgins, a vice president of Bankers Trust Co., was named chairman of the brokerage unit. Janice M. Deluis, also a vice president at the bank, will serve as president.

BT Brokerage will execute trades for customers of Bankers Trust Co.'s Wall Street Account, its discount brokerage unit. A Bankers Trust spokeswoman emphasized that BT Brokerage would not serve customers of the bank's trust department because of restrictions in some trust agreements.

BT Brokerage is based in a Midtown Manhattan office and opened for business with a dozen employees and about $2 million in capital. ■

Overview . . .

Continued from Page 6

reductions in corporate and individual tax rates."

James Q. Riordan, senior vice president of Mobil Corp., charged that this was unrealistic: "The statement assumes that Congress can achieve rate reduction, dividend reduction, take the poor off the tax rolls, maintain the research and development credit, maintain appropriate capital investment and international competitiveness provisions, and still come up with a revenue-neutral income tax package."

Mr. Riordan went on to say, "It is for this reason that the statement concludes we can defer consideration of a consumption tax. I disagree with the assumption and the conclusion. We will need to enact a consumption tax at the same time we lower income tax rates and increase exemptions if we wish to keep total tax revenues neutral. We should be working on a consumption tax now." ■

WASHINGTON THE WEEK AHEAD

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American Banker

Duff & Phelps Inc. CREDIT RATINGS

Week Ending November 1, 1985

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Fixed Income	
Air Products and Chemicals, Inc.-Debs.	5
Allied-Signal Inc.-Notes	5
John Deere Credit Company-Sr. Debt (Shelf)	6
John Deere Credit Company-Sub. Debt (Shelf)	7
Merrill Lynch & Co., Inc.-Notes	3
People Express Airlines, Inc.-JETS	15
Ryder System, Inc.-Notes	5
Security Pacific Corporation-Notes (Shelf)	3
Transco Energy Company-Pfd. Stock	10
The Washington Water Power Company-Pfd. Stock (Shelf)	8
New Ratings:	
Commercial Paper	
Baxter Travenol Laboratories, Inc.	Duff 2
Certificates of Deposit	
The Frost National Bank of San Antonio	Duff 1 —
Ratings Reaffirmed:	
Fixed Income	
Security Pacific Corporation-Sr. Debt	3
Security Pacific Corporation-Sub. Debt	3
Security Pacific Corporation-Pfd. Stock	5
Commercial Paper	
Security Pacific Corporation	Duff 1 +

Ratings Changed:	From	To
Fixed Income		
General Foods Capital Corporation-Sr. Debt	3	6
General Foods Corporation-Sr. Debt	3	6
Kansas Gas and Electric Company-Sr. Debt	9	10
Kansas Gas and Electric Company-Pfd. Stock	10	11
Philip Morris Companies Inc.-Sr. Debt	4	6
The Upjohn Company-Sr. Debt	4	3

Chemical Promotes 3 To Sr. Vice Presidents

NEW YORK — Chemical Bank has named three new senior vice presidents and a managing director.

Named senior vice presidents were Charlene T. Coutre, chief of staff for administrative services in the bank's operations division; Rusty L. Myer, divisional director of human resources for the world banking group; and Gary M. Sherman, group head of the emerging investor area of Chemical's trust and investment division.

The new managing director is M. Guy Heald, head of Chemical's international foreign exchange activities, based in London. ■

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in American Banker for the latest legal analysis of developments affecting the financial services industry.

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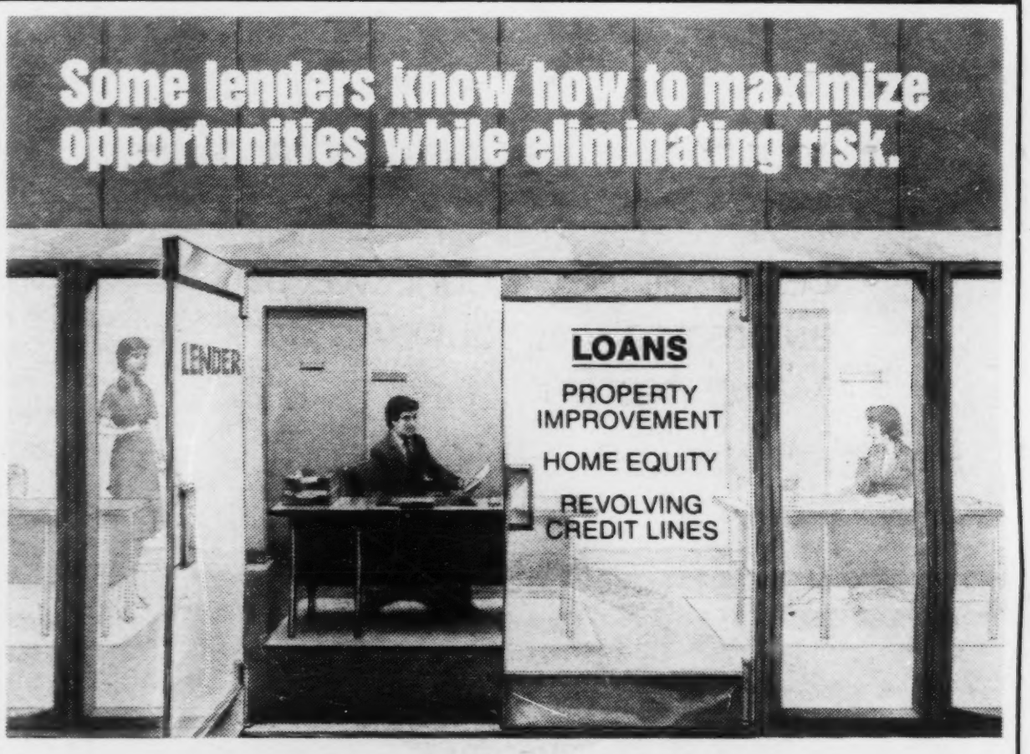

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American Banker

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VOL. CL NO. 222 Tuesday, November 12, 1985 150th Year

TODAY

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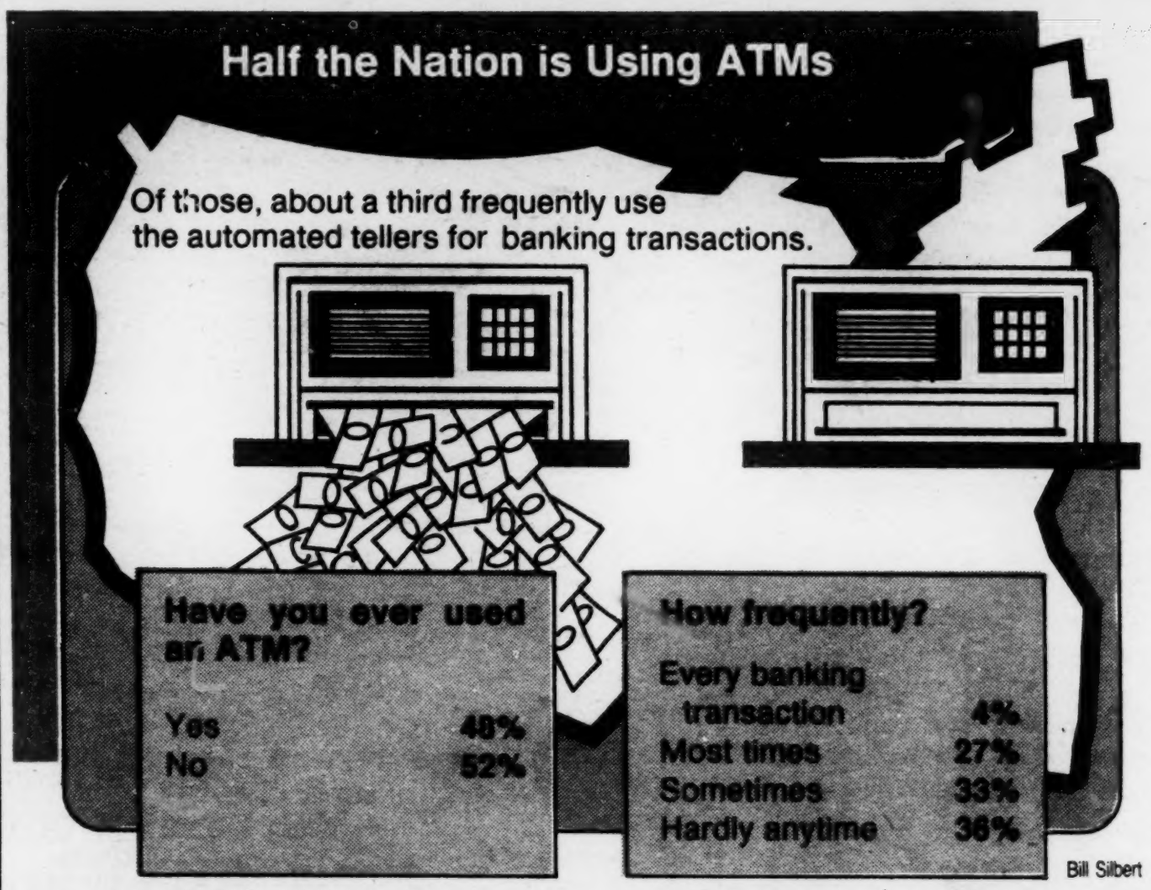
Wooing Customers to ATMs: Beyond Puppy Love


Half the Nation is Using ATMs
Of those, about a third frequently use the automated tellers for banking transactions.
Have you ever used an ATM?
Yes 48%
No 52%
How frequently?
Every banking transaction 4%
Most times 27%
Sometimes 33%
Hardly anytime 36%
Bill Silbert

By DAVID LaGESSE

The public's affection for the automated teller machine has become more than a casual affair, with about half the country having used the electronic version of the great American money machine.

How Consumer America Views the Changing Financial System

Half of those who have tried ATMs, though, say they still prefer handling routine business through teller windows, according to responses to a nationwide survey commissioned by the *American Banker*.

That finding disturbs some of those charged with encouraging customer use of the estimated 60,000 to 70,000 ATMs currently in place nationwide.

ATMs: Page 12

Self-Evaluation Will Put Overdrafts in New Light

By TOM FERRIS

NEW YORK — The banking industry is quietly preparing for a government program that could have far-reaching implications for wholesale banking operations and on how the marketplace judges the creditworthiness of individual banks.

The program, effective March 27, limits the size of overdrafts any institution can incur during the day while transferring funds over the government's Fed Wire network and over private payment systems.

To comply, thousands of banks have to rate themselves on the basis of creditworthiness, operational controls, and credit policies. The evaluation determines each institution's permissible level of so-called "daylight overdrafts," which occur when a bank wires out more funds than are in its reserve account or when it has sent more funds over a private network than it has received.

Experts say the risk-reduction policy could affect transaction-processing operations, competitive positioning, corporate customers, and even bank credit ratings. Implementing

Daylight: Page 3

Bank Failure No. 100

Conditions Indicate that Toll Will Continue

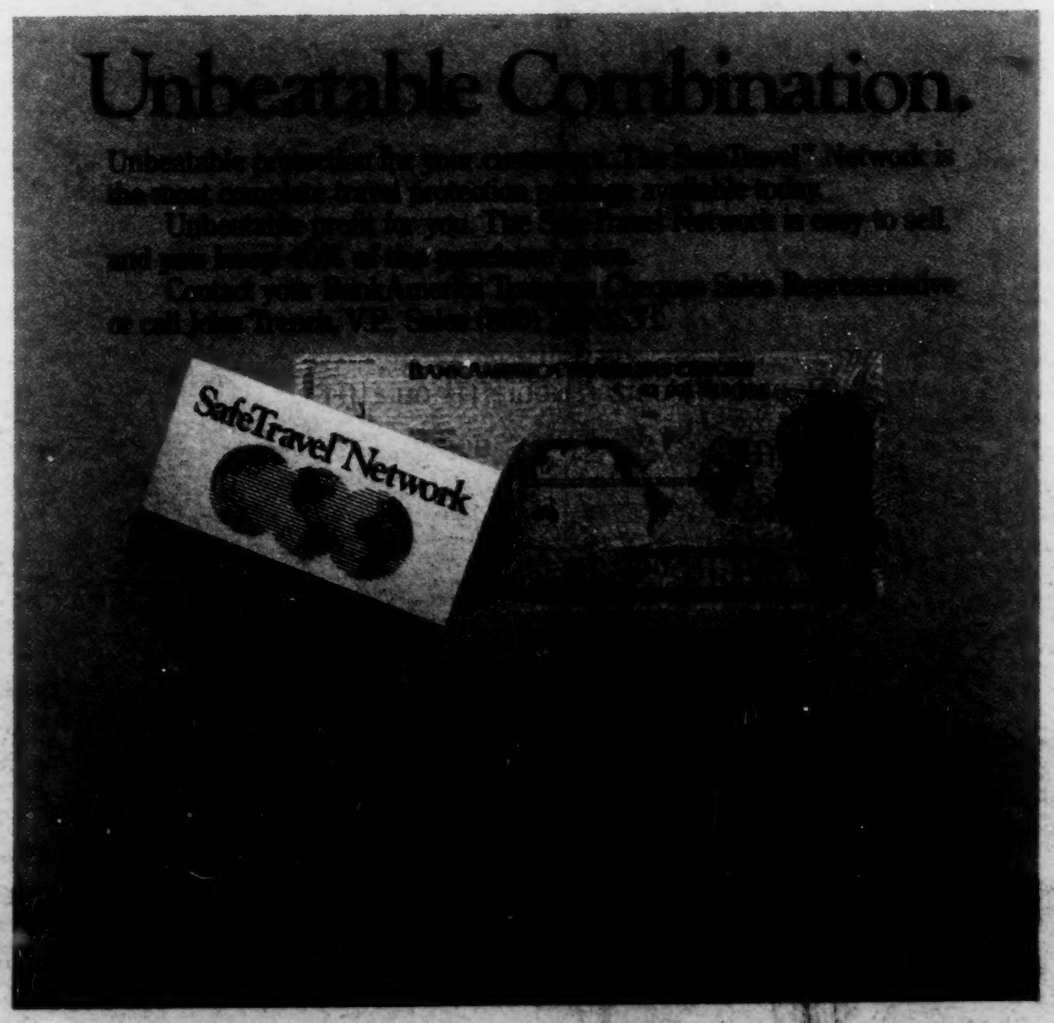
By BART FRAUST

NEW YORK — One hundred banks insured by the Federal Deposit Insurance Corp. have failed so far in 1985 — the most since 1933, the year before commercial banks were first required to obtain federal deposit insurance.

Buried on Friday were No. 99 and No. 100. Number 99 was the $9.3 million-asset Auburn Savings Bank in Auburn, Iowa, a farm bank. No. 100 was the $47 million-asset Northshore Bank, Houston, closed because of real estate woes.

Exactly one-half of the banks on the 1985 failure list were designated as farm banks, that is, at least 25% of their loans were related to agriculture. Farm

Failures: Page 28



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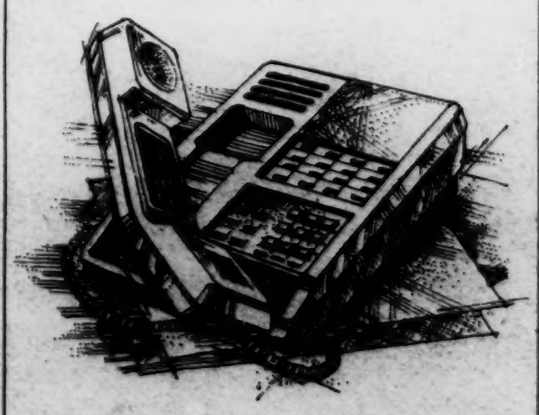


Number of Problem Banks Mounts in Year with 100 Failures

Continued from Page 1

banks represent about 27% of all commercial banks.

The failures have been concentrated in a handful of states. Forty-four percent occurred in Iowa, Kansas, Texas, and Oklahoma. Banks in those states have heavy concentrations of loans to the farm and energy sectors, two depressed areas in the economy.

Another 15 to 20 banks will probably go under before the end of the year, according to FDIC officials. There are no signs that the situation will abate next year, and FDIC officials are predicting another 100 or so failures in 1986.

In all of 1984, 79 banks failed, itself a record for post-Depression America. There were 48 failures in 1983.

The FDIC attributes almost all of the increase in failures from 1984 to 1985 to the troubled farm sector. However, to many observers, including many officials at the insurance agency itself, a common thread runs through all bank failures, farm and nonfarm alike: Banks fail because of mismanagement.

Farm bankers, like energy lenders, overextended their institutions in boom times, and now that farm land values are depressed and exports are down, these lenders are paying the price.

Another persistent problem is bank fraud. Stephen Katsanos, a spokesman for the FDIC, noted that insider abuse and other kinds of criminal activities are believed to have occurred in about one-third of the failures this year.

The worst single day since the Depression in terms of bank failures occurred this year. On May 31, seven commercial banks were closed, including one relatively large institution, the $108 million-asset Bank of Oregon in Woodburn.

In and of itself, the rising tide of commercial bank failures is not a cause for major concern and simply reflects a more competitive environment in banking with the advent of deregulation of interest rates on deposits. Before deregulation, bank profits were more or less protected by the government. Today, banks have to compete for deposits and for loans, and some small banks are unable to survive in this climate.

Still, most small banks do survive, and, in fact, thrive. Small banks generally are more profitable than large banks in terms of return on assets.

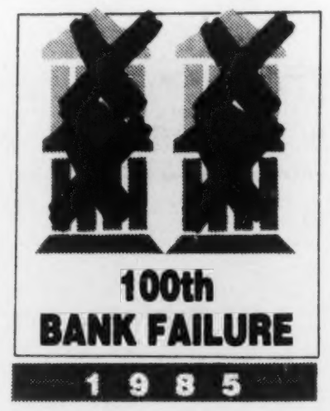
David Cates, a principal of Cates Consulting Analysts Inc., a New York bank consulting firm, is an often-quoted proponent of the view that the increase in bank failures does not represent a crisis situation. "One hundred failures is not 100 disasters," points out Mr. Cates.

Mr. Cates adds that about four new banks are formed each year for each bank that fails. Last year, 438 new banks opened.

Generally, the failed banks are small institutions. In the first half of 1985, for example, 81% of the failed banks had less than $50 million in assets, and only 6% had more than $300 million in assets.

The largest FDIC-insured institution to fail in 1985 was the $5.4 billion-asset Bowery Savings Bank, New York City, which was sold recently to individual investors in a transaction assisted by the insurance agency.

Including the Bowery, the average asset size of a failed bank this year was $82.6 million. Excluding the Bowery,



the average asset size was $28.7 million. The Bowery made up about 65% of the total assets of failed banks.

Most failed banks are taken over by new owners, like the Bowery, rather than liquidated. Of the first 98 bank failures this year, only 18 were liquidated, or 18.4%. Of the 79 failures last year, 16 were liquidated, or 20.3%.

In addition, the numbers pale in comparison with those before the establishment of federal deposit insurance in 1934. Between 1923 and 1933 a total of 13,937 banks failed, almost as many banks as are operating today. In 1933 alone, 4,000 banks became insolvent.

➡ Failures: Page 30

Fulton Posts First Quarterly Profit in Years

Special to the American Banker

ATLANTA — Fulton Federal Savings and Loan has reported its first quarterly profit since late 1982.

The Atlanta-based mutual S&L, the second largest in Georgia with assets of $2 billion, said it earned $590,000 in the third quarter, including a profit of $300,000 in September.

Henry Garmon, chairman and chief executive officer, said the earnings included several extraordinary gains, including $1 million on the sale of commercial real estate loans. The company had an operating loss of about $600,000 in the third quarter, he said.

"We aren't out of the woods yet," he added.

For the first nine months, the company reported a loss of $5.4 million, compared with $15 million during the same period a year ago.

Mr. Garmon said he expects Fulton Federal to lose less than $5 million for all of 1985, after losses of $21 million in 1984 and $19 million in 1983. He said he did not rule out the possibility that the company would be profitable this year.

Mr. Garmon said the company's operating results are expected to turn into the black in the second quarter of 1986 if interest rates remain stable. He said the company may consider converting from mutual to stock ownership next year.

Many of Fulton Federal's difficulties stem from a series of statewide acquisitions of small S&Ls in the early 1980s. Consolidating those institutions and their computer systems led to a period of chaos in the company's data processing operations.

In the midst of those problems in early 1984, Fulton Federal's board named Mr. Garmon to replace Edward H. Schweers, who resigned as chief executive officer. Several other top-level managers left the company in 1984. ■

T.A. Pardue, Kentucky Banker, Dies at 88

Special to the American Banker

LOUISVILLE — T.A. Pardue, a former director of Farmers Bank and Capital Trust Company in Frankfort, Ky., died Oct. 28 in Louisville. He was 88.

Mr. Pardue began his banking career with Farmers National Bank in Scottsville, Ky., and became a vice president.

From 1933 to 1939, Mr. Pardue was a bank examiner for the Federal Deposit Insurance Corp. He went to Frankfort in 1939, joining Farmers Bank as a vice president. A year later, he became a director of the bank. When Mr. Pardue retired in 1972, he was senior vice president and trust officer.

Mr. Pardue was a 50-year member of the Kentucky Bankers Association. ■

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Treasury Implements South African Loan Ban

By NINA EASTON

WASHINGTON — The Treasury Department on Friday issued regulations implementing President Reagan's Sept. 9 ban on new loans to the South African government.

The regulations forbid financial institutions from making any loans — directly or indirectly — to the South African government "or any entity controlled by that government."

The rules go beyond direct loans to cover trade credits and debt securities issued after Nov. 11. Financial institutions also are prohibited from purchasing loans made to South Africa by others.

President Reagan announced the ban as a way to pressure the South African government to implement reforms in its apartheid system.

The ban applies to banks, savings and loans, trust companies, securities brokers and dealers, investment companies, and employee pension plans. Parent companies and subsidiaries of these institutions also are forbidden from lending to South Africa.

The rules lay out some exceptions to the ban, including loans for educational, housing, or health facilities that "would benefit all persons on a nondiscriminatory basis." Loans that will "improve the economic situation of South Africans disadvantaged by apartheid" also are exempt from the ban. ■

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Mismanagement Cited Among Failed Banks' Ills

Continued from Page 28

The number of bank failures fell to 61 in 1934, and of these, only nine were insured by the FDIC.

Even if 150 banks failed this year, that would represent only about 1% of the nation's 14,469 commercial banks.

Signs of More Serious Nature

However, the rising number of bank insolvencies looks more serious when other factors are taken into consideration, including the increasing number of banks on the FDIC's problem bank list, the continuing woes of federally insured thrift institutions, the precarious state of the Federal Savings and Loan Insurance Corp., and the collapse earlier this year of private deposit insurance funds in Ohio and Maryland.

A spokesman for the FDIC said there are now 1,097 banks on its problem list, compared with 848 at yearend 1984. Problem-list banks are those rated 4 and 5 on the agency's 5-point CAMEL rating system. CAMEL evaluates a bank's capital, asset quality, management, earnings, and liquidity.

The FDIC did not disclose how many farm banks are currently on the problem list, but as of August 1985, they made up 37.2% of the total 975 banks then on the list, up from 36.1% at yearend 1984.

In addition, a total of 148 final cease-and-desist orders have been issued by the insurance agency this year, compared with 125 in 1984. The orders are often issued to stop what the FDIC considers to be risky or unsound banking practices.

Mr. Cates' firm has its own rating system for banks — based on several financial ratios — and he says the number of banks given its most unfavorable rating is about 1,500.

Not all banks on either problem list fail.

Over the last few years, fewer federal thrifts have failed than commercial banks. So far in 1985, 40 thrifts regulated by the Federal Home Loan Bank Board have failed, including 15 assisted mergers, eight liquidations, and 17 institutions that are being managed by other thrifts. Twenty-seven thrifts failed in 1984.

The comparatively low number of thrift failures masks deeper problems. Despite higher earnings in the industry in general, hundreds of thrifts are being kept afloat by federal income capital certificates and other accounting techniques.

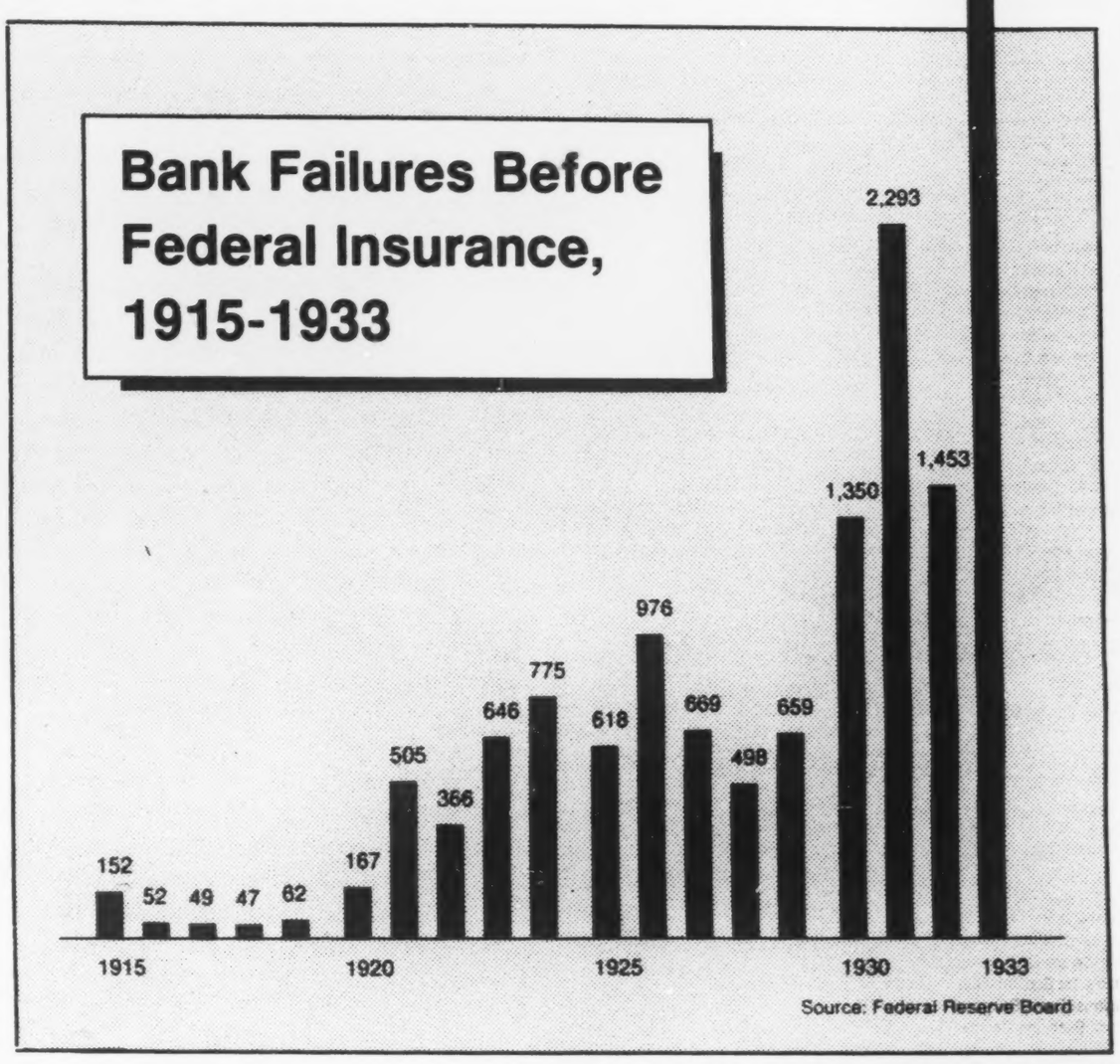
Depleted Insurance Fund

The Federal Savings and Loan Insurance Corp.s insurance fund has been seriously depleted, and Federal Home Loan Bank Board Chairman Edwin J. Gray has suggested as one option to aid the fund that Congress allow a special $8.5 billion insurance premium. He conceded that the additional assessment could put 50 to 100 thrifts out of business.

Aid for the troubled insurance fund is expected to come from formation of a corporation to manage and dispose of assets acquired by the FSLIC from failed thrifts.

The FSLIC fund has reserves of $6.8 billion. The FDIC has net worth of $19.5 billion.

There is some evidence that the thrift's problems are starting to affect the public's perception of the financial industry in general.



Dennis P. O'Connell/American Banker Nov. 8, 1985

A recent *American Banker* survey of consumer attitudes found that six of 10 consumers have heard that savings and loans are having troubles. Those who said they heard of the problems also were more likely than others to express doubts about the overall health of the U.S. financial system, the survey found.

So far, however, consumer doubts have not been translated into bank runs. "I am not really aware of any bank-run situations," says Stanley C. Silverberg, the FDIC's director of research and strategic planning.

"The runs we've seen have been by big depositors — at Continental Illinois and First National Bank of Midland, Tex. There is not much evidence of depositors losing faith in the insurance system."

Farm Woes Biggest Factor

The major factor in the increase in bank failures since last year has been the agricultural sector, depressed by falling land values, lower commodity prices, and falling exports.

In the September 1985 edition of its *Economic Review,* the FDIC noted: "During the past 14 months, farm banks accounted for just over 50% of all bank failures. Nonagricultural banks have been failing at about the same pace as in 1984, meaning that agricultural bank failures almost totally account for this year's higher failure rate."

And there is no help in sight, particularly given the continued low demand abroad for U.S. farm products. "Loan problems at agricultural banks are high relative to those of other banks and relative to the recent past. Given the outlook for the agricultural economy, further problems at agricultural banks seem almost certain," according to the FDIC report.

While the publicly released FDIC papers point the finger at the agricultural economy, in confidential documents the agency is critical of the farm bankers themselves.

"A study of 28 agricultural bank failures that occurred between Jan. 1, 1984, and Feb. 5, 1985, indicates that none was solely due to adverse economic conditions," according to a confidential agency report obtained by the *American Banker* through the Freedom of Information Act.

"Although a depressed agricultural economy no doubt aggravated conditions and perhaps accelerated the failures, the primary cause in all instances was mismanagement coupled, in many cases, with insider abuse."

The FDIC did not release specific details of the 28 agricultural bank failures.

"Just as farmers who fail are farmers who overexpand, banks that fail are

→ Failures: Page 39

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